BRITISH COLUMBIA

BC STATS

Ministry of Management Services

Infoline

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July 9, 2004

- **Unemployment falls to 7.5% in June**
- **British Columbians are the least likely in Canada to attend religious services**
- **BC has the highest level of Internet usage in the country**

The Labour Force

- **The unemployment rate in BC fell to 7.5% (*seasonally adjusted*) in June, with the strongest job growth rate seen in two years**. Employment expanded for the second month in a row (+1.3%), offsetting looses earlier in the year.

- June's job growth was strongest in the goods-producing sector (+2.5%). Employment in construction was up 6.5%, reflecting the boom in the BC housing market. The natural resource sector—forestry, fishing & mining—also had strong employment gains (+5.9%) for the second straight month. Employment was also up in the service sector (+1.0%), led by transportation & warehousing (+4.3%) and accommodation & food service (+3.0).

  All of the new jobs created in June were full-time, which was partially offset by declines in part-time employment. However, nearly half (46%) of the new jobs were due to self-employment. Hiring by private sector employers accounted for 47% of the new jobs, while public sector employers contributed the remaining 6% of the job growth.

  Employment in the Vancouver Metro Area went down slightly (-7,500), while employment in the rest of BC increased by almost 35,000 jobs. *Data Source: Statistics Canada*

- **BC was one of only three provinces (along with PEI and Nova Scotia) to see a decline in the jobless rate in June**. Nationally, the unemployment rate edged up slightly to 7.3%.

  Unemployment rates were lowest in the Prairie provinces, ranging from 5.7% in Manitoba to 4.5% in Alberta. The highest unemployment was in Newfoundland & Labrador (16.6%).

  Data Source: Statistics Canada

Housing

- **Housing starts in BC were down 6.4% in June, the second consecutive month of decline**. Nationally, housing starts were unchanged.

- **The value of building permits issued in BC rose 3.2% (*seasonally adjusted*) in May, the first increase in four months**. Residential building permits were unchanged (+0.1%), but non-residential permits were up 15.0%. The major factor was a jump in institutional/governmental construction (+88.9%).

  BC was one of the few provinces with an increase in construction intentions in May. Nationally, building permits fell 9.5%.

  Data Source: Statistics Canada

- **Non-seasonally adjusted data from across the regions of BC show that almost all parts of the province have seen growth in building permits over the last year**. In the first five months of 2004, compared to the same period last year, permits showed strongest growth in Northern BC (+36%), followed by Mainland/Southwest (+26%) and Vancouver Island/Coast (+22%). Only the Kootenays have seen a decline over this period (-27%).

  Data Source: Statistics Canada

Religious Attendance

- **British Columbians are the least likely in Canada to attend religious services**. Some 57% of BC residents did not attend religious services at all in 2003, the highest proportion in Canada. Alberta had the second highest rate of non-attendance, at 48%. Nationally, 43% of Canadians had no experience with religious services last year.

Report — Small Business Suffers Gas Pains

Did you know...
9% of British Columbians admit they have pretended to have read a book when they had only seen the movie.

Thirty-nine percent of British Columbians had some contact with formal religious events. Almost a quarter (24%) attended religious services regularly (at least once a month), and an additional 15% attended occasionally (a few times last year). A small remainder the population (4%) did not state their religious activities.

Across the country, religious attendance was highest in PEI, where more than half the population (52%) regularly attends a church or other place of worship. *Data Source: SC, Catalogue no. 89-598-XIE*

The Internet

- **British Columbia has the highest level of Internet usage in the country**. Roughly 71% of BC households were regular Internet users in 2003, compared to the national average of 64%. The lowest Internet usage rates were in New Brunswick (53%) and Quebec (55%). Ontario (68%) and Alberta (69%) had Internet usage levels similar to BC. *Data Source: Statistics Canada*

- **Internet usage has increased sharply over the last five years**. Only 48% of BC households used the Internet in 1999—23 percentage points lower than in 2003. *Data Source: Statistics Canada*

- **Growth in Internet usage in recent years has not overcome a broad "digital divide" between high- and low-income households in Canada**. Among households earning more than $70,000/year—the wealthiest 25% of the population—almost all (90%) used the Internet. In contrast, in households earning less than $23,000 (the poorest 25%), only about a third (35%) were Internet users. This is a gap of 55 percentage points.

  The rich/poor divide in Internet usage has actually increased slightly over the last five years. Households of all income levels are using the Internet more today, but in 1999, the Internet usage gap was 52 percentage points (19% in low-income households, and 71% in high income households). *Data Source: Statistics Canada*

Family Violence

- **Criminal convictions for violence against a spouse in Canada tend to result in milder sentences than convictions for violence against other people**. Some 19% of convictions for spousal violence resulted in a prison sentence, compared to 29% of other violent crime convictions.

  Part of this difference is due to differences in the severity of the offences. However, even when looking at more specific offences, the pattern remains. For example, sexual assault of a spouse led to a prison term in 28% of convictions. When the victim was not a spouse, sexual assault led to a prison term in 36% of convictions.

  The only exception to this pattern was in the case of stalking, where spouses were more likely to sent to prison than non-spouses.

  Males account for the vast majority (92%) of convictions for spousal assault. Men are slightly more likely to be charged with a crime following an incident of spousal assault. Roughly 80% of male offenders are charged, compared to about 70% of female offenders. *Data Source: Statistics Canada*

- **Spouses were much less likely to kill each other in 2002 than they were in the past**. The spousal homicide rate for female victims was 8.1 per million married women in 2002, down from 16.5 in the mid 1970s (-51%). Similarly, the rate for male victims was 2.0 per million married men, down from 4.4 in the mid 1970s (-55%). *Data Source: Statistics Canada*

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For data originating from Statistics Canada, data sourced to 'Statistics Canada' has been retrieved from CANSIM, the agency's electronic database; otherwise the source is identified as 'SC' plus the catalogue number.

Infoline Report

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July 09, 2004

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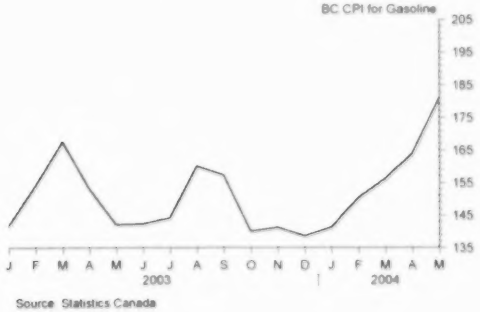
Small Business Suffers Gas Pains

Anyone who drives a car is aware that the price of gasoline has soared in recent months. While the price at the pump is an obvious indicator of one source of increased cost to consumers, there are other expenses involved with higher fuel costs that are less obvious. The rising price of gasoline is also a cost for businesses and sometimes this additional expense is passed on to the consumer.

Since April, the average price of gasoline in British Columbia jumped from approximately 82 cents a litre to just short of a dollar a litre early in June. This sudden hike is proving to be a burden for many businesses, particularly smaller businesses that have a small profit margin to begin with. While some of these businesses can pass the additional cost on to the consumer, for others it might be enough to push the customer away to substitute products.

Gasoline prices have soared recently



Source: Statistics Canada

It is already likely that many consumers are cutting back on other purchases to make room in their budgets for the higher cost of gasoline. This could cause some short-term pain for small businesses. However, in the longer-term, it is likely that if higher prices of gasoline persist, then consumers will adjust their behaviour by switching to a more fuel-efficient mode of transport. Already there appears to be an increased demand for fuel-efficient hybrid vehicles and motorbikes, and purchases of gas-guzzling SUVs are falling.

Businesses that stand to lose the most from gasoline inflation are those involved in transport. Independent truckers who don't have a lot of leeway in what they can charge their customers could stand to incur a significant loss. Companies that deliver products, such as florists, fast food franchises and so on, are another example of businesses that will see their costs rise. Taxi drivers could be doubly cursed by the high cost of gas. Not only will they pay more to fuel their cars, but also they could see fewer tourists using their services as airlines are forced to raise their prices, possibly pushing costs high enough to discourage travellers. Already Air Canada and West Jet Airlines have boosted their ticket prices marginally to recoup some of the costs of higher fuel prices. There is the possibility of even greater hikes to come.

In addition to higher airfare, the extra expense involved in filling a tank could discourage many of those people planning to travel by car. The potential for a decline in tourists could be extremely damaging for small businesses that rely on tourist spending, particularly following on the heels of a poor year due to the effects of SARS, the war in Iraq, and the forest fire situation in the BC Interior.

With all the potential domino effects that could work their way through the economy, it is not surprising that in a survey of its members, the Canadian Federation of Independent Business found that energy prices were near the top of their list of concerns, second only to insurance premiums.[1] Of those responding to the survey,

[1] See the article "Cost of Insurance is the Top Concern for Small Business in BC" in the 3rd Quarter 2003 issue of the *Small Business Quarterly* for a discussion of that issue.

64% said that energy prices have negatively affected performance in the last year, compared to 68% who cited insurance premiums as being harmful.[2] This was prior to the rapid inflation in gasoline prices that has occurred recently, so it is likely that in the next quarterly survey, this number will be even higher.

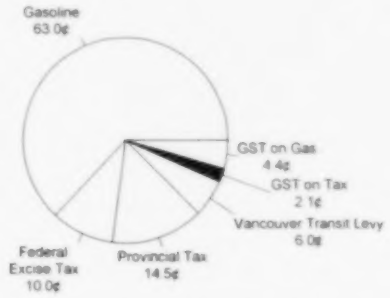
The skyrocketing price of gasoline has businesses and consumers alike pointing the finger, trying to assign blame. Often it is the independent retailer who is held responsible, but in fact, gasoline marketing margins have not changed much over the last year. Rather, it is the cost of refining the gasoline that has been responsible for a great deal of the price surge, along with rising prices for crude oil. The refiner margin, which is the difference between the price of crude oil and the wholesale price of refined gasoline, has risen significantly over the last few months.

The price incline has resulted from demand outstripping supply. The reason for the scarcity of supply is mainly due to a shortage of refining capacity. There simply aren't enough refineries in North America to keep up with burgeoning demand and the high cost of building a new refinery makes it unlikely that this situation will abate anytime soon.

In addition to crude oil, the refining margin and the marketing margin, the other significant portion of the cost of gasoline is the tax component. At current prices, taxes make up between 30 and 40 percent of the price of gasoline.

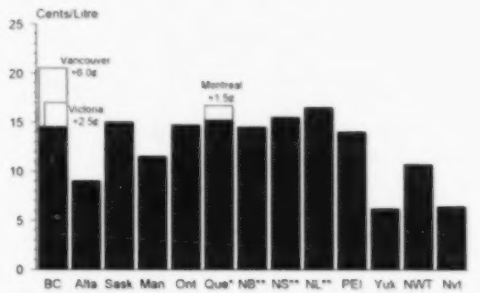
If a litre of gasoline were priced at one dollar in Greater Vancouver, 37.0 cents of that would be comprised of taxes. This includes a provincial levy of 14.5 cents per litre, the federal excise tax of 10.0 cents per litre and a regional transit levy of 6.0 cents per litre.[3] The remainder of the tax is the GST, including 2.1 cents that is actually a tax upon the other taxes.

Cost component breakdown of a litre of gasoline priced at $1/litre in Greater Vancouver



Despite the additional 6.0 cents per litre transit levy applied in Greater Vancouver, it does not rank as the jurisdiction with the highest percentage of taxes (based on a cost of $1 per litre) in Canada. That distinction goes to Montreal where consumers pay only a 1.5 cents per litre transit levy, but where the provincial sales tax of 7.5% is applied on top of all the costs, including the GST. If gasoline costs $1 per litre, only 54.1 cents of it is the gasoline component, with the remainder made up of various taxes, a total of 45.9 cents out of every dollar. This is compared to 37.0 cents in Vancouver.

Taxes on gasoline vary widely by province



*Quebec also charges 7.5% sales tax (which is applied on top of all taxes including GST)
**New Brunswick, Nova Scotia and Newfoundland & Labrador apply the 15% HST instead of the GST

The rest of Quebec and the three provinces that have harmonized their sales taxes with the GST (New Brunswick, Nova Scotia, Newfoundland and Labrador) are the only other areas of the country where consumers pay a larger portion of taxes per litre of gasoline than Greater Vancouver (or Victoria, which pays a transit levy of 2.5 cents per litre).

[2] Canadian Federation of Independent Business, *Quarterly Business Barometer*, 2004 No. 1 (March 2004).

[3] This 6.0 cents per litre applies only to the GVRD. Victoria also pays a transit levy, but it is only 2.5 cents per litre. For the rest of the province, there is no additional levy.

Predictably, the historically high cost of gasoline has resulted in people lobbying for lower taxes. One of the prime targets is the portion of the GST that is a tax on other taxes.[4] Equally predictably, since this is an election year, several federal politicians have stepped up to either offer tax breaks or to suggest that a greater portion of taxes collected be returned to the provinces for purposes of road building and improving transit.

It remains to be seen whether or not taxes on gasoline will fall, but it is unlikely that the underlying price of gas will drop back to levels seen just several months ago. The growing demand for fuel coupled with a limited supply should keep prices at higher levels, although they may abate somewhat from where they are currently skirting the $1 per litre mark. If this is indeed not a temporary phenomenon, then both consumers and businesses will have to adjust to the higher cost. Perhaps they will be offered some relief from taxes, but it is likely that prices of 60 cents per litre of gasoline are gone for good. For businesses where the cost of fuel is a significant component of expenses, a choice will have to be made: either accept a smaller profit margin, or pass the costs on to consumers.

As mentioned earlier, for some companies, passing on the entire cost may not be a feasible option. Another problem is that, in some cases, the consumer is another business, which then is faced with the same options.

The overall effect of higher fuel costs may not make a substantial dent in the economy,[5] but it could have a more significant impact on some small businesses that simply do not have the option of raising their prices. In general, larger businesses have a wider range of options to deal with cost increases, including ramping up production to increase efficiency. For many small businesses, this is just not feasible.

On the other hand, situations like this are opportunities for entrepreneurs to invent a product substitute and small businesses with some foresight could grow into large businesses as a result. A case in point is Ballard Power, which has grown into a world leader in fuel cell technology. Perhaps the high cost of fuel will help that particular company take the next step toward bringing its technology to the mass market, or perhaps another company will come up with an alternative fuel or an alternative form of transportation that will diminish the demand for gasoline.

Time will tell what effect higher gasoline prices will have on the BC economy, but in the short-term it is almost certain to be a drag on small businesses and consumers. Over the longer term, both consumers and businesses alike may adapt by changing their gasoline consumption habits and substituting different products for ones in use now, whether they be more fuel-efficient vehicles, different methods or procedures for transporting goods, or a new product altogether that uses fuel cell or other technology.

[4] In Quebec, where the provincial sales tax is applied after all other taxes have been added on, including the GST on top of the other taxes, consumers must pay a tax on a tax on a tax!

[5] According to an article in *The Globe and Mail*, the International Energy Agency calculated that a $10 increase in the price of oil would cause only a 0.5 percentage point decline in global GDP growth (Little, Bruce, "$41 crude long way from shock territory," *The Globe and Mail*, May 15, 2004), which is significant, but not catastrophic by any means.

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BC at a glance . . .

POPULATION (thousands)	Apr 1/04	% change on one year ago
BC	4,177.4	1.0
Canada	31,825.4	0.9
GDP and INCOME		
(BC - at market prices)	2003	% change on one year ago
Gross Domestic Product (GDP) *($ millions)*	142,418	5.1
GDP *($ 1997 millions)*	130,914	2.2
GDP *($ 1997 per Capita)*	31,572	1.4
Personal Disposable Income *($ 1997 per Capita)*	19,495	-0.4
TRADE ($ millions, seasonally adjusted)		% change on prev. month
Manufacturing Shipments - Apr	3,389	-0.9
Merchandise Exports - Apr	2,464	0.5
Retail Sales - Mar	3,613	2.1
CONSUMER PRICE INDEX		12-month avg
(all items - 1992=100)	May '04	% change
BC	123.4	1.7
Canada	125.0	1.7
LABOUR FORCE (thousands)		% change on
(seasonally adjusted)	Jun '04	prev. month
Labour Force - BC	2,249	1.0
Employed - BC	2,080	1.3
Unemployed - BC	169	-2.5
		May '04
Unemployment Rate - BC *(percent)*	7.5	7.8
Unemployment Rate - Canada *(percent)*	7.3	7.2
INTEREST RATES (percent)	Jul 7/04	Jul 9/03
Prime Business Rate	3.75	5.00
Conventional Mortgages - 1 year	4.70	4.65
- 5 year	6.70	6.05
US/CANADA EXCHANGE RATE	Jul 7/04	Jul 9/03
(avg. noon spot rate) Cdn $	1.3196	1.3749
US $ *(reciprocal of the closing rate)*	0.7564	0.7274
AVERAGE WEEKLY WAGE RATE		% change on
(industrial aggregate - dollars)	Jun '04	one year ago
BC	676.88	-1.7
Canada	679.67	3.0

SOURCES:

Population, Gross Domestic Product, Trade, Prices, Labour Force, Wage Rate } Statistics Canada

Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics

For latest Weekly Financial Statistics see www.bankofcanada.ca

Released this week by BC STATS

- Major Projects Inventory, June 2004

Next week

- Labour Force Statistics, June 2004
- Earnings & Employment Trends, June 2004
- Tourism Sector Monitor, June 2004

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